property after it was used to partially settle the debt. You must include any gain from the sale in gross income. The gain is not a recovery of a bad debt. For information on the sale of an asset, see Publication 544.

How To Treat

There are two ways to treat business bad debts.

- The specific charge-off method.
- The nonaccrual-experience method.

Generally, you must use the specific charge-oti method. However, you can use the non-accrual-experience method if you meet the requirements discussed later.

Specific Charge-Off Method

If you use the specific charge-off method, you can deduct specific business bad debts that become either partly or totally worthless during the tax year.

Partly worthless debts. You can deduct specific bad debts that are partly uncollectible. Your deduction is limited to the amount you charge-off on your books during the tax year. You do not have to charge-off and deduct your partly worthless debts annually. You can delay the charge-off until a later year. You cannot, " however, deduct any part of a debt after the year it becomes totally worthless.

Deduction ***disallowed.*** You can generally take a partial bad debt deduction only in the year you make the charge-off on your books. If the Internal Revenue Service (IRS) doas not allow your deduction and the debt becomes partly worthless in a later tax year, you can deduct the amount you charge-off in that year, plus the amount charged off in the earlier year. The charge-off in the earlier year, unless reversed on your books, fulfills the charge-off requirement for the later year.

Totally worthless debts. Deduct a totally worthless debt only in the tax year it becomes totally worthless. Do not include any amount deducted in an earlier tax year when the debt was only partly worthless.

You do not have to make an actual charge-off on your books to claim a bad debt deduction for a totally worthless debt. However, you may want to do so. If you do not and the IRS later rules the debt is only partly worthless, you will not be allowed a deduction for the debt in that tax year. A deduction of a partly worthless bad debt is limited to the amount actually charged-off.

Filing a claim for refund. If you did not deduct a bad debt on your original return for the year it became worthless, you can file a claim for a credit or refund. If the bad debt was totally worthless, you must file the claim by the later of the following dates.

- 7 years from the date your original return was due (not including extensions).
- 2 years from the date you paid the fax.

If the claim is for a partially worthless bad debt, you must file the claim by the later of the following dates.

- 3 years from the date you filed your original return.
- 2 years from the date you paid the tax.

However, see Publication 556 for information on suspending the time period for filing a claim when you are physically or mentally unable to handle your financial affairs.

Use, one of the following forms to file a claim for a credit or refund.

If You are an	File:
Individual	Form 1040X
Corporation	Form 1120X
S corporation	Form 1120S (check box F(4))
Partnership	Form 1065 (check box G(4))

For more information about filing a claim, see Publication 556.

Nonaccrual-Experience Method

If you use an accrual method of accounting and qualify under the rules explained in this section, you can use the nonaccrual-experience method of accounting for bad debts. Under this method, you do not accrue income that you expect to be uncollectible.

If you determine, based on your experience, that certain amounts (accounts receivable) are uncollectible, do not include them in your gross income for the tax year.

Amounts must be for performing services. You can use the nonaccrual-experience method only for amounts earned by performing services that you would otherwise include in income. You cannot use this method for amounts owed to you from activities such as lending money, selling goods, or acquiring receivables or other rights to receive payments.

Interest or penalty **charged.** Generally, you cannot use the nonaccrual-experience method for amounts due on which you charge interest or a late payment penalty. However, do not treat a discount offerad for early payment as the charging of interest or a penalty if both of the following apply.

- You otherwise accrue the full amount due as gross income at the time you provide the services.
- You treat the discount allowed for early payment as an adjustment to gross income in the year of payment.

How to apply this method. You can apply the nonaccrual-experience method under either of the following systems.

- Separate receivable system.
- Periodic system.

Under the separate receivable system, apply the nonaccrual-experience method separately to each account receivable. Under the periodic system, apply the nonaccrual-experience method to total "qualified accounts receivable at the end of your tax year.

"Treat each system-as a separate method of accounting. You generally cannot change from one system to the other without IRS approval.

Generally, you also need IRS approval to change to either system under the nonaccrual-experience method from a different accounting method.

For more information on the separate receivable system, see section 1.446-2 of the regulations. For more information on the periodic system, see Notice 86-51 in Cumulative Bulletin 1986-1.

Where To Deduct .

Use the following guide to find where to deduct your business bad debts.

If you are a:	Then deduct your bed debt on:
Sole Proprietor	Line 9 of Schedule C (Form 1040) or Line 2 of Schedule C (Form 1040)
Farmer	Line S4 of Schedule (Form 1040)
Corporation	Line 150r Form I12 or Line 15 of Form 112 or Line 10 of Form 112
Partnership	Line 12 of Form 106

15. Electric and Clean-Fuel Vehicles

Introduction

You are allowed a limited deduction for cost of clean-fuel vehicle property and clean-fuel vehicle refueling property you place in service during the tax year. Also, you are allowed a tax credit of 10% of the cost of qualified electric vehicle you place in service during the tax year.

TIP *You can take the electric vehicle credit or the deduction for clean-fuel vehicle property regardless of whether you use the vehicle in a trade or business.' However, you can take a deduction for* clean-fuel *vehicle* refueling *property only if you use the property in your trade or business.*

Topics

This chapter discusses:

- The deduction for clean-fuel vehicle property
- The deduction for clean-fuel vehicle refueling property
- Recapture of the deductions
- The electric vehicle credit

Useful Items

You may want to see:

Publication

- ❑ 463 Travel, Entertainment, Gift, and Car Expenses
- ❑ 544 Sales and Other Dispositions of Assets
- ❑ 946 How To Depreciate Property

Form (and Instructions)

- ❑ 8834 Qualified Electric Vehicle Credit

See chapter 17 for information about getting publications and forms.

Deductions for Clean-Fuel Vehicle and Refueling Property

You are allowed a limited deduction for the cost of clean-fuel vehicle property. You are also allowed a limited deduction for the cost of clean-fuel vehicle refueling property. These deductions are allowed only in the tax year you place the property in service.

You cannot claim these deductions for the part of a property's cost that you claim as a section 179 deduction.

Nonqualifying property. You cannot claim these deductions for property used in the following ways.

1) Predominantly outside the United States.
2) Predominantly to furnish lodging or in connection with the furnishing of lodging.
3) By certain tax-exempt organizations.
4) By governmental units or foreign persons or entities.

Clean-burning fuels. The following are clean-burning fuels.

1) Natural gas.
2) Liquefied natural gas.
3) Liquefied petroleum gas.
4) Hydrogen.
5) Electricity.
6) Any other fuel that is at least 65% alcohol (any kind) or ether.

Deduction for Clean-Fuel Vehicle Property

The deduction for this property may be claimed regardless of whether the property is used in a trade or business.

Clean-fuel vehicle property. Clean-fuel vehicle property is either of the following kinds of property.

1) A motor vehicle produced by an original equipment manufacturer and designed to be propelled by a clean-burning fuel. The only part of a vehicle's basis that qualifies for the deduction is the part attributable to:
   a) A clean-fuel engine that can use a clean-burning fuel,
   b) The property used to store or deliver the fuel to the engine, or
   c) The property used to exhaust gases from the combustion of the fuel.
2) Any property installed on a motor vehicle (including installation costs) to enable it to be propelled by a clean-burning fuel if
   a) The property is an engine (or modification of an engine) that can use a clean-burning fuel, or
   b) The property is used to store or deliver that fuel to the engine or to exhaust gases from the combustion of that fuel.

For vehicles that may be propelled by both a clean-burning fuel and any other fuel, your deduction is generally the additional cost of permitting the use of the clean-burning fuel.

Clean-fuel vehicle property does not include an electric vehicle that qualifies for the electric vehicle credit discussed later.

Motor vehicle defined. A motor vehicle is any vehicle that has four or more wheels and is manufactured primarily for use on public streets, roads, and highways. It does not include a vehicle operated exclusively on a rail or rails.

Qualified property. For your property to qualify for the deduction:

1) it must be acquired for your own use and not for resale,
2) its original use must begin with you, and
3) Either—
   a) The motor vehicle of which it is a part must satisfy any federal or state emissions standards that apply to each fuel by which the vehicle is designed to be propelled, or
   b) it must satisfy any federal and state emissions certification, testing, and warranty requirements that apply.

However, see *Nonqualifying property,* earlier.

Deduction limit. The maximum deduction you can claim for qualified clean-fuel vehicle property with respect to any motor vehicle is:

1) $50,000 for a truck or van with a gross vehicle weight rating over 26,000 pounds or for a bus with a seating capacity of at least 20 adults (excluding the driver),
2) $5,000 for a truck or van with a gross vehicle weight rating over 10,000 pounds, but not more than 26,000 pounds, or
3) $2,000 for a vehicle not included in (1) or (2).

Deduction for Clean-Fuel Vehicle Refueling Property

For your property to qualify for this deduction:

1) it must be depreciable property, and
2) its original use must begin with you.

However, see *Nonqualifying property,* earlier.

Clean-fuel vehicle refueling property. Clean-fuel vehicle refueling property is any property (other than a building or its structural components) used to do either of the following.

1) Store or dispense a clean-burning fuel into the fuel tank of a motor vehicle propelled by the fuel, but only if the storage or dispensing is at the point where the fuel is delivered into the tank.
2) Recharge motor vehicles propelled by electricity, but only if the property is located at the point where the vehicles are recharged.

For the definition of a motor vehicle, see *Deduction for Clean-Fuel Vehicle Property,* earlier.

Recharging property. This property includes any equipment used to provide electricity to the battery of a motor vehicle propelled by electricity. It includes low-voltage recharging equipment, high-voltage (quick) charging equipment, and ancillary connection equipment such as inductive charging equipment. It does not include property used to generate electricity, such as solar panels or windmills, and does not include the battery used in the vehicle.

Deduction limit. The maximum deduction you can claim for clean-fuel vehicle refueling property placed in service at one location is $100,000. To figure your maximum deduction for any tax year, subtract from $100,000 the total you (or any *related person* or predecessor) claimed for clean-fuel vehicle refueling property placed in service at that location for all earlier years.

If the deduction limit applies, you must specify on your tax return the property (and portions of the property's cost) that you are using as a basis for the deduction.

Related persons. For this purpose, related persons include the following persons.

1) An individual and his or her brothers and sisters, half-brothers, half-sisters, spouse, ancestors, and lineal descendants.
2) An individual and a corporation when the individual owns, directly or indirectly, more than 50% in value of the outstanding stock of the corporation.
3) Two corporations that are members of the same controlled group as defined in section 267(f) of the Internal Revenue Code.
4) A grantor and a fiduciary of any trust.
5) Fiduciaries of two separate trusts if the same person is a grantor of both trusts.
6) A fiduciary and a beneficiary of the same trust.

7) A fiduciary and a **beneficiary** of two separate trusts if the same person is a grantor of both trusts.

8) A fiduciary of a trust and a **corporation** when the trust or a grantor of the trust owns, directly or indirectly, more than **50%** in value of the outstanding stock of the corporation.

9) A person and a tax-exempt educational or **charitable** organization that is controlled directly or indirectly by that person or by members of the family of that person.

10) A corporation and a partnership if the same pereons own more than **50%** in value of the outstanding stock of the corporation and more than 50% of the capital or profits interest in the partnership.

11) Two **S** corporations or an S corporation and a regular corporation if the same persons own more than 50% in value of the outstanding stock of each **corporation.**

12) A partnership and a person owning, directly or indirectly, more than **50%** of the capital or profits interest in the **partnership.**

13) Two partnerships if the **same** persons own, directly or indirectly, more than 50% of the capital or profits interest in both partnerships.

14 **An** executor of an estate and a beneficiary of the estate, except in the case of a sale or exchange in **satisfaction** of a pecuniary bequest.

To determine whether an individual directly or indirectly owns any of the outstanding stock of a **corporation,** see *Ownership of stock,* under Related *Persons,* in Publication 52a.

How To Claim the Deductions

How you claim the **deductions** for clean-fuel **vehicles** and refueling property depends on the use of the property and the kind of income tax return you file.

Nonbusiness use of clean-fuel vehicle property by **Individuals.** individuals can claim the deduction for the nonbusiness use of **clean-fuel vehicle** property by including the deduction in the **total** on iine 32 of Form 1040. **Also,** enter the amount of your deduction and **"Clean-Fuel"** on the dotted iine **next** to line 32. if you use the vehicle partly for business, see the **next** two discussions.

Business **use** by **employees.** Employees who use **clean-fuel** vehicle property for business, or partly for business and partly for nonbusiness purposes, **should** include the entire deduction in the **total** on line 32 of Form 1040. **Also,** enter the amount of your deduction and **"Clean-Fuel"** on the dotted line next to iine 32.

Business use by sole **proprietors. Individuals** who operate a business as a soie proprietor must **claim** their deduction for the business use of clean-fuel **vehicles** and **clean-fuel** vehicle **refueling property** on the *Other expenses* iine of either **Schedule** C (Form 1040) or Schedule F (Form 1040). if **clean-fuel** vehicle **property** is used pertly for nonbusiness purposes, **claim** the nonbusiness part of the deduction as explained **ear**iier under *Nonbusiness use of clean-fuel vehicle proparty by individuals.*

Partnerships. Partnerships claim the deduction for the business use of **clean-fuel vehicle** and **clean-fuel vehicle** refueling property on line 20 of Form 1065.

S corporation. S corporations claim the deduction for the business use of **clean-fuel vehicle** and clean-fuel vehicle **refueling property** on iine 19 of Form 1120S.

Other corporation. Corporations **claim** the deduction for the business use of clean-fuel **vehicle** and **clean-fuel** vehicle refueling property on line **26** of **Form** 1120 (line 22 of Form 1120-A).

Recapture of the' Deductions

if the properly **ceases** to qualify, you may have to recapture the deduction. You recapture the deduction by including it, or a part of it, in your income.

Clean-Fuel Vehicle Property

You must recapture the deduction for **clean**-fuel vehicle property if the **property** ceases to qualify within 3 years after the date you **placed** it in service. The property will cease to **qualify** if **it:**

1) is modified so that it can no longer be **propelled** by a clean-burning fuel,

2) Ceases to be a **qualified clean-fuel vehicle property** (for **example, by** failing to meet emissions standards), or

3) is **used—**
   a) Predominantly outside the United States,
   b) Predominantly to furnish **lodging** or in connection with the furnishing of **lodging,**
   c) By certain tax-exempt organizations, or
   d) By governmental units or foreign persons or entities.

Sales or other **dispositions.** if you **sell** or otherwise dispose of the **vehicle** within 3 years after the date you **placed** it in service and know or have reason to know that it **will** be used in a manner described above, you are subject to the recapture rules. in other **sales** or dispositions (including a disposition by reason of an accident or other **casualty),** the recapture **rules** do not apply.

, if the vehicle was subject to depreciation, the deduction **(minus** any recapture) is considered depreciation when figuring the part **of the gain that is ordinary income. See Publication 544 for more information on dispositions of depreciable property.**

Recapture amount. **Figure** your recapture amount by multiplying the **deduction** by a recapture percentage. The percentages are as **follows.**

- 100% if the recapture date is within the first **full** year after the date the vehicle was **placed** in service.
- **66⅔%** if the **recapture** date is within the second **full** year after the date the vehicle was **placed** in service.
- **33⅓%** if the recapture **date** is within the third **full** year after the date the vehicle was **placed** in service.

Recapture date. The recapture date is **generally** the date of the event that causes the recapture. However, the recapture date for an event described in item (3), earlier, is the first day of the recapture year in which the **event** occurs.

How to report. How you **report** the recapture amount for **clean-fuel vehicle** property as income depends on how you claimed the deduction for that property.

Nonbusiness use by individuals. **Include** the amount on **line** 21 of Form 1040.

Business use by employees. include. the amount on, iine 21 of Form 1040.

Business use by soie proprietors. include the amount on the *Other income* line of either **Schedule** C (Form 1040) or **Schedule** F (Form 1040).

Partnerships snd corporations (Including S corporations). include the amount on the Other *income* line of the **form** you **file.**

Clean-Fuel Vehicle Refueling Property

You must recapture the deduction for **clean**-fuel **vehicle refueling** property if the property ceases to qualify at any time before the end of its depreciation **recovery** period. The property wiii cease to **qualify if it:**

1) Ceases to be a clean-fuel vehicle refueling property (for example, by being converted to store and dispense gasoline),

2) Is no **longer** used 50% or more in your trade or business, or

3) is **used—**
   a) Predominantly outside the United States,
   b) Predominantly to furnish **lodging** or in connection with the furnishing of **lodging,**
   c) By **certain** tax-exempt organizations, or
   d) By governmental units or foreign persons or entities.

Sales or other dispositions. if you sell or otherwise dispose of the property before the end of its recovery period and know or have reason to know that if **will** be used in a manner described above, you are subject to the recapture rules. in other **sales** or dispositions, the recapture rules do rtot apply.

The deduction (minus any recapture amount) is considered depreciation when **figuring** the **part** of the gain that is ordinary income upon its disposition. See Publication 544 for more information on dispositions of depreciable **property.**

Recapture amount. Figure your recapture amount by multiplying the deduction you claimed by the **following** fraction.

$$\frac{\text{Total recovery period for the property} - \text{Recovery years before the recapture year}}{\text{Total recovery period for the property}}$$

Recapture date. The recapture date is generally the date of the event that causes the recapture. However, the recapture date for an event described in item (2) or (3), earlier, is the first day of the recapture year in which the event occurs.

How to report. How you report the recapture amount for clean-fuel vehicle refueling property depends on how you claimed the deduction for that property.

Business use by sole proprietors. Include the amount on the *Other income* line of either Schedule C (Form 1040) or Schedule F (Form 1040).

Partnerships and corporations (including S corporations). Include the amount on the *Other income* line of the form you file.

Basis Adjustments

You must reduce the basis of your clean-fuel vehicle or clean-fuel vehicle refueling property by the amount of the deduction claimed. If, in a later year, you must recapture part or all of the deduction, increase the basis of the property by the amount recaptured. If the property is depreciable property, you can recover this additional basis over the property's remaining recovery period beginning with the tax year of recapture.

If you were using the percentage tables to figure your depreciation on the property, you will not be able to continue to do so. Sss Publication 946 for information on figuring your deprecation without the tables.

Electric Vehicle Credit

You can choose to claim a tax credit for a qualified electric vehicle you place in service during the year. You can make this choice regardless of whether the property is used in a trade or business.

Qualified Electric Vehicle

A vehicle is a qualified electric vehicle if it meets all of the following requirements.

1) It has at least four wheels and is manufactured primarily for use on public streets, roads, and highways.
2) it is powered primarily by an electric motor drawing current from rechargeable batteries, fuel cells, or other portable sources of electrical current.
3) You were the first person to use it.
4) You acquired it for your own use and not for resale.

Generally, an electric vehicle is not qualified if it:

1) Has ever been used as a nonelectric vehicle,
2) Is operated exclusively on a raii or rails, or
3) Is used—
   a) Predominantly outside the United States,
   b) Predominantly to furnish lodging or in connection with the furnishing of lodging,
   c) By certain tax-exempt organizations, or
   d) By governmental unite or foreign persons or entities.

Amount of the Credit

The credit is generally 10% of the cost of each qualified electric vehicle you place in service during the year. If your vehicle is a depreciable business asset, you must reduce the cost of the vehicle by any section 179 deduction before figuring the 10"A credit. If you need information on the section 179 deduction, see Publication 946.

Credit limits. The credit is limited to $4,000 for each vehicle. The total credit is limited to the excess of your regular tax liability, reduced by certain credits, over your tentative minimum tax. To figure the amount of credit you can't take, complete Form 6834 and attach it to your tax return.

How To Claim the Credit

You must complete and attach Form 8834 to your tax return to claim the electric vehicle credit. Enter your credit on your tax return as discussed next.

Individuals. Individuals claim the credit by entering the amount from line 19 of Form 8834 on line 47 of Form 1040. Check box "d" and specify Form 8834.

Partnerships. Partnerships enter the amount from line 19 of Form 8834 on line 13 of Schedule K (Form 1085). The partnership then allocates the credit to the partners on iine 13 of Schedule K-1 (Form 1065). Seethe instructions for Form 1085.

S corporations. S corporations enter the amount from line 19 of Form 8834 on line 13 of Schedule K (Form 1120S). The S corporation then allocates the credit to the shareholders on line 13 of Schedule K-1 (Form 1120S). See the instructions for Form 1120S.

Other **corporations.** Corporations other than S corporations claim the credit by entering the amount from line 19 of Form 8634 in the total for line 4c of Schedule J (Form 1120) and checking the Form 8834 box to the left of the entry. See the instructions for Form **1120.**

Recapture of the Credit

The electric vehicle credit is subject to recapture if, within 3 years after the date you place the vehicle in service, it ceases to qualify for the electric vehicle "credit. You recapture the credit by adding it, or a pert of it, to your income tax.

The vehicle ceases to qualify if it

1) Is modified so that it is no longer primarily powered by electricity, or
2) Is used—
   a) Predominantly outaide the United states,
   b) Pradominantiy to furnish lodging or in connection with the furnishing of lodging,
   c) By certain tax-exempt organizations, or
   d) By governmental units or foreign persons or entities.

Sales *or* other **dispositions.** If you sell c dispose of the vehicle within 3 years after th date you place it in service and know or hav reason to know that it will be used in a mar ner described above, you are subject to th recapture rules. In other sales or disposition the recapture rules do not apply.

If the vehicle was subject to depreciatio the credit (minus any recapture amount) i considered depreciation when figuring th pert of the gain that is ordinary income. Se Publication 544 for more information on di positions of depreciable property.

Recapture amount. Figure your recaptur amount by multiplying the credit by a reca ture percentage. The percentages are as fc lows.

- 100Ye if the recapture date is within the first full year after the date the vehicle "was placed in service.
- 88%% if the recapture date is within the second full year after the date the vehic was placed in service.
- 33%% if the recapture date is within the third full year after the data the vehicle was placed in service.

Recapture date. The recapture date generally the date of the event that caus the recapture. However, the recapture da for an event described in item (2), earlier, the first day of the recapture year in which th event occurs.

How to report. How you report the recaptu amount of the electric vehicle credit depend on how the credit was claimed.

individuals. Include the amount on lin 56 of Form 1040. Write "QEVCR" on the do ted line next to line 56.

Partnerships. Include on line 25 Schedule K-1 (Form 1085) the information partner needs to figure the recapture of th credit.

S *corporations. Include on* line 23 Schedule K-1 (Form 1120S) the informatio a shareholder needs to figure the recaptu of the credit.

Other corporations. Include the amou on line 8 of Schedule J (Form 1120), or lin 5 of" Parl i (Form 1120-A). Write "QEV re capture" on the dotted line next to that ent space.

Basis Adjustments

If you claim a tax credit for a 'qualified electr vehicle you place in service during the yea you must reduce your basis in that vehicle the lesser of

1) $4,000, or
2) 10Y. of the cost of the vehicle.

This basis reduction rule applies even if th credit allowed is less than that amount.

If you must recapture part or all of th credit, increase the basis of your vehicle the amount recaptured. If the qualified electr vehicle is depreciable property, you can r cover the additional basis over the vehicle remaining recovery period beginning with th tax year of recapture.